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REVIEW & OUTLOOK

The $6,400 Myth

Breaking down a false Obama Medicare claim.

One of President Obama's regular attacks on Paul Ryan's Medicare reform is that it would force seniors to pay $6,400 a year more for health care. But merely because he keeps repeating this doesn't mean it's in the same area code of accurate.

The claim is based on a now out-of-date Congressional Budget Office estimate of the gap between the cost of health care a decade from now, in 2022, and the size of the House budget's premium-support subsidy for a typical 65-year-old in 2022.

In other words, the $6,400 has no relevance for any senior today. None. But it also is unlikely to have any relevance for any senior ever because CBO concedes that its number is highly uncertain and "will depend on the evolution of the health care and health insurance systems over time, which is hard to predict." That's for sure.

The more fundamental problem is that the CBO analysis has nothing to do with the *current* Mitt Romney-Paul Ryan plan. Nada. Over the last year Mr. Ryan has made major adjustments to his original proposal as he sought a compromise with Democrats. In its most up-to-date analysis, CBO admits that it "does not have the capability at this time to estimate such effects" in the new version. That is, it does not have the tools to make its $6,400 exaggeration again.

The reason CBO can't model the 2013 House budget and the Romney-Ryan plan is that they harness markets with competitive bidding. Congress's budget gnomes can't handle these dynamic forces.

So how would Ryan 2.0 work in practice? Traditional Medicare and all private insurers in a region would make bids to cover seniors and compete for their business by offering the best value and prices. Then the government would give everyone a subsidy equal to the second-lowest bid.

If seniors chose that No. 2 option, whether it was Medicare or another plan, they'd break even and pay nothing extra out of pocket. If they picked the cheapest plan, they'd keep whatever was left over after the government subsidy—that is, they'd get a cash refund. If they instead picked the third-cheapest option, the fourth-cheapest, etc., they'd pay the difference above the government subsidy.

That structure ensures that seniors would have at least two choices (and likely far more) that they are guaranteed to do better than they do now. The amount of the premium-support subsidy would also be tied to underlying health-care costs, so it would not shift costs to beneficiaries, as Democrats also falsely claim. The very reasonable Romney-Ryan policy bet is that costs could nonetheless fall over time because seniors would have the incentive to switch to the most competitively priced Medicare plan.

The latest real-world reason to expect that would happen comes from a new paper by the Harvard economists Zirui Song, David Cutler and Michael Chernew. The researchers—Mr. Cutler used to be an Obama health adviser—looked at Medicare Advantage, the program that currently gives one of four seniors private alternatives (and that ObamaCare deliberately undermines).

The Advantage insurers make bids today against a benchmark set by traditional Medicare spending, and the Harvard trio find that the second lowest bid in 2009 came in 9% below the normal program on average. Medicare costs $717 per person per month, but the cheapest private plan could provide the same coverage for 87 cents on the government dollar. The second cheapest could do it for 91 cents.

Messrs. Song, Cutler and Chernew are alarmed because they say their results imply—broadly speaking—that seniors in traditional Medicare would have to pay $64 a month more if they kept that coverage. (Note: That totals $768 a year, not $6,400.) But a better way of reading the data is that seniors would migrate to more cost-effective options, saving both themselves and taxpayers a bundle.

None of these facts are likely to deter Democrats from their distorted claims. But the truth is that the Ryan-Romney reform isn't anywhere close to Mr. Obama's cartoon version.